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Paying the Last Installment:
Tokyo Says Goodbye to Chiang Kai-shek

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The passing of Chiang Kai-shek will have no immediate impact on Japan's relations with the Nationalist government on Taiwan. The Japanese apparently foresee an essential continuity in the relationship, based on their view that the Generalissimo's son and successor, Chiang Ching-kuo, is a pragmatist who recognizes Taiwan's interest in maintaining profitable economic ties with Japan. Chiang's death, nonetheless, is likely to have subtle effects on Tokyo's attitude toward Taipei and, in time, on a variety of issues.

Tokyo felt compelled to remain officially silent on Chiang's death; there are no formal diplomatic ties, and the Japanese had no wish to offend Peking. But Japan's most senior leaders--headed by Prime Minister Miki in his capacity as president of the Liberal Democratic Party--promptly expressed their personal regrets, and Tokyo mustered a sizable delegation--including former prime ministers Kishi and Sato--to attend Chiang's funeral. For these and other conservative stalwarts of the World War II Japanese bureaucracy, and for many of Japan's older generation, Chiang's death marked the end of an era.

In Japan, even in politics, there is heavy emphasis on "correct" behavior and unspoken obligation. Chiang's sympathetic treatment of postwar Japan, together with the massive Japanese guilt complex over 30 years of war with China, combined to win important friends for Chiang in Tokyo. The Generalissimo had quickly repatriated Japan's surrendered armies and, almost alone among Asian leaders, agreed to forgo reparations.

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After the Nationalists were forced to move to Taiwan in 1949, Tokyo's sense of obligation continued as an important component of its policy toward the Chiang government. Through the 20-year debate over China policy, Tokyo's "Taiwan lobby"--composed of the ruling party's right wing and businessmen with interests in Taiwan--won support for Taipei's cause by appealing to the prevailing respect for Chiang. Many apolitical older Japanese supported Taipei's cause mainly because they viewed Chiang as a symbol of China's ancient traditions and virtues, a model for the Japanese social system they remembered with nostalgia. Even after normalization of relations with Peking in 1972, Tokyo's leaders moved carefully--if not deferentially--to avoid outright offense to Chiang.

In a sense, when Japan's senior conservatives paid their last respects at Chiang's funeral, they were providing the final installment of Japan's postwar political debt to the Generalissimo, who, in the words of a Tokyo newspaper, "requited wrongs with kindness." Chiang's departure and the diminishing influence of his senior advisers will inevitably increase the distance between the Japanese establishment and the government in Taipei. In Tokyo, from now on, the value of the bilateral relationship will be measured almost solely in terms of tangible political or economic benefits. (CONFIDENTIAL)

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Japan: Another Look at Local Elections

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Although ruling conservatives held onto their share of prefectoral assembly seats in the local elections of April 13, final returns reveal a noteworthy drop in their popular vote total. Four years ago, the Liberal Democratic Party received 46.8 percent of the vote; this time, they polled 42.2 percent. Even taking into account the 1.1-percent increase in votes for independent conservatives, the conservatives suffered a drop of about 3.5 percentage points overall. This worrisome development has dampened talk within the party of an early national election (i.e., June or July); the consensus emerging now is that general elections will be called in November at the earliest and perhaps not until next year.

Historically, the gradual decline in the conservatives' electoral base has been caused more by the shift in population from rural to urban areas than by any other cause. The greatest drop in popular support for the conservatives occurred during the mid-1960s, when the population shift to urban areas was most pronounced. In later years, the rate of decline in conservative support has diminished, as has the shift in population.

The latest drop in conservative support cannot be explained in terms of a population shift. The most obvious explanation is the state of the economy; over the past year or so, industrial production declined for the first time in the postwar period. If dissatisfaction with the economy is the basic reason, the conservatives may regain some support once an economic recovery gets under way--a factor the conservatives may well have taken into account

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in postponing the general election. If the recent drop in support also registers in the next national election, however, the conservatives will be hard pressed to maintain a comfortable majority in the Lower House. (CONFIDENTIAL)

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North Korea: New Political Committee Members

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The leadership turnout at the fifth session of the fifth Supreme Peoples Assembly--convened on April 8 for a routine presentation of the annual budget--confirms the addition of three new members to the powerful Political Committee of the Korean Workers Party. The three first appeared as committee members at the fourth session of the assembly in November 1974. Their rank is not clear, although they all seem to be in the lower third of the committee's candidate members.

Yun Ki-pok, most recently identified as director of the party's Science and Education Department, joined the Central Committee in 1970. His past assignments include service as minister of Common Education, minister of Finance, chairman of the State Planning Commission, and vice chairman of the Committee for Cultural Relations with Foreign Countries.

Chon Mun-sop, a veteran of Kim Il-song's prewar guerrilla band, is a colonel general in the Korean Workers Party. He has been a member of the Central Committee since 1961, and in the mid-sixties served as vice minister of the Ministry of Public Security, which handles domestic police and intelligence affairs. Chon is accompanying President Kim on his visit to Peking this week.

Information on Chong Kyong-hui, on the Central Committee since 1970, is not available. (CONFIDENTIAL)

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Insurgency in Thailand--A Standoff

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Bangkok newspapers were recently filled with stories that north Thailand was being invaded by a foreign communist army. The stories vanished from the front pages almost as fast as they surfaced, but as is often the case in Bangkok press treatment of communist insurgency, there was some element of truth in all the furor. A Thai insurgent band had indeed attacked a government outpost on the periphery of insurgent controlled territory near the Lao border, but fact ended there and fancy took over. The episode illustrates the tendency in Bangkok--by press and government alike--to perceive the insurgency as a remote and somewhat irrelevant problem that must be "glamorized" or embellished to attract attention. This approach, however, has worked to undermine the government's credibility and has often led government officials to disregard intelligence assessments of communist political and military strength in the countryside.

Thai communist strategists, turning Bangkok's parochialism to their own advantage, have avoided the kind of spectacular terrorism that would force the government to pay greater attention to the insurgency. When they decided in the late 1950s to move from political to armed struggle, the strategists concentrated their operations in remote areas where the government's political interest and presence are limited. As a result, few government officials believe that enormous expenditures of resources in an attempt to eliminate the insurgency are justifiable. While it can be said that the insurgents have only made a virtue of necessity, they nevertheless have achieved their intended results.

Although communist advances in Indochina will buoy the morale of the Thai insurgents, the Communist Party of Thailand is not in a position

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politically or militarily to take immediate advantage of the situation. Insurgent strength has continued to grow over the years, now numbering some 8,000 armed men who operate in groups of from 10 to 100 in widely scattered parts of the country. But there is still little popular support for the communists outside of their enclaves, and the evidence suggests that even in these enclaves, villagers support the communists more out of fear than out of any deep resentment against the government. In short, the insurgency poses little immediate threat to Bangkok or other heavily populated areas, and the government sees little prospect of its doing so in the near future.

The Communist Party of Thailand still has strong ideological ties to Peking. Its leadership is mostly Sino-Thai and has never been close to the North Vietnamese, despite a willingness to accept training and supplies from Hanoi over the years. Because of its strict Chinese orientation and its dependence on foreign support, the party has had limited political appeal among the Thai. Moreover, Thailand's strong anti-communist law, which makes party membership illegal, has inhibited the party from trying to build up an urban base.

This could change, however, if the newly elected Thai National Assembly carries out plans to abolish the anti-communist act. The Khukrit government is divided on the issue. Prime Minister Khukrit reportedly believes that the act merely keeps the communists underground and out of view, and thus harder to monitor and to counter. Foreign Minister Chatchai Chunhawan wants to abolish the act in the belief that this would facilitate efforts to improve relations with Peking and Hanoi. Army commander Krit Siwara opposes abolition, claiming that this would give an aura of legitimacy to the Communist Party of Thailand and that many people who would not

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otherwise become members will be encouraged to join. Krit believes that the net effect would be to strengthen communist influence in Thai politics.

Krit's fears may be unfounded. Although some groups, such as the more radical members of the student movement, would welcome elimination of the anti-communist law, it does not appear likely that the communist party itself would seize the opportunity to compete openly with the government in the political arena. Party propaganda continues to be sensitive to those who question the wisdom of pursuing armed struggle in the jungle, suggesting that there is still a serious ideological hurdle to any shift in strategy. Party leaders probably would suspect that abolition of the law was a government "trick" to learn the identity and whereabouts of key party members. Despite evidence that the communists have had limited success in influencing some student radicals, leftist journalists, and at least one political party, the insurgent movement is still the focal point of communist activity and is likely to remain so for the foreseeable future. The party will want to watch the experiment in representative government carefully for some time before deciding whether to risk shifting more of its efforts to the political arena. (SECRET NO FOREIGN DISSEM/CONTROLLED DISSEM)

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Burma: A More Visible President

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Student-initiated disorders in Rangoon last December raised new doubts about Ne Win's staying power in office. The President, who came to power in 1962 and is now in his mid-60s, had indicated that he was tiring of his job and might step down. He appeared to have lost prestige as a result of a government miscalculation that allowed the student protests over funeral arrangements for U Thant to get out of hand.

Ne Win's actions during the past several weeks have served to dispel any doubts about his plans--he has given the impression of a President not only fully in charge, but optimistic about the future of his country. In contrast to the image of self-imposed isolation that has long characterized Ne Win's rule, the President has made several highly publicized appearances in recent weeks.

Early this month, Ne Win spent a week touring military facilities in northeast Burma. The journey served to reinforce Ne Win's ties with the army--his major power base. Any damage to his position last December probably has been at least partially offset by recent army successes against the communist insurgents, and the trip demonstrates the President's ability to travel in an area where insurgency had been a major problem.

Last month, Ne Win visited a US Information Service book exhibit in Rangoon, and the President's office ensured that the occasion was given front-page treatment in the government-controlled press. According to US embassy officers, Ne Win appeared in excellent health and spirits. He indicated that he believed Burma's efforts to combat insurgency were going well and that economic prospects were bright.

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Although Ne Win's recent behavior suggests that prospects for a change at the top of the Burmese government have been reduced for the moment, the country still faces serious economic and insurgency problems, and renewed unrest on the part of students and other groups remains possible. Such a development would not lead to an overthrow of the regime as long as the army remained loyal, but it could cause a new downturn in Ne Win's spirits and trigger further speculation about his retirement. Moreover, the President has a long history of serious illnesses, which could also affect his tenure in office. (SECRET NO FOREIGN DISSEM/BACKGROUND USE ONLY)

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Burma: A Decade of Economic Mismanagement

Under Ne Win's reign, Burma has grown poorer with each passing year. Pitted against average population gains of over 2 percent a year, per capita income is less today than in the early 1960s. During 1963-73 real annual growth of gross national product averaged 1.8 percent: agriculture grew 1.1 percent, mining 1.5 percent, and industrial production--the star performer--only 2.5 percent.

Once the world's largest rice exporter, Burma has seen its surplus dwindle away in the course of one short decade. Rice exports dropped from nearly 2 million tons annually in the early 1960s to only 200,000 tons in 1974. Official statistics may underestimate actual production somewhat, but they show almost no growth in total rice output from 1964 to 1974--an implied decline in per capita rice production of about 25 percent for the period. This and other evidence of Burmese mismanagement has prompted one East European diplomat to remark that Burma was giving socialism a bad name.

The persistent stagnation of Burma's economy feeds on itself. Because of poor agricultural and industrial performance, foreign exchange earnings have diminished as exports declined steadily. Restricted foreign exchange reserves forced Rangoon last year to limit imports to about 40 percent of their 1964 level. Adjusted for inflation, real imports last year were only 20 percent of the 1964 level.

Even with curtailed imports, the government has been compelled to take out short-term, high-interest loans to meet its most essential needs. Debt repayment is now beginning to choke out imports in the competition for scarce foreign exchange.

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Short-term debt obligations alone took up some 25 percent of foreign exchange expenditure in the third quarter of 1974, while total debt obligations drained off a staggering 40 percent of all foreign exchange spending--compared with only 5 percent in 1967.

As a result of the debt burden, foreign exchange reserves are now at a point where they will pay for less than two months of imports at the 1964 rate, dangerously low by international standards.

Burma's policy options have narrowed as creditors press for more stringent actions. Reluctant to antagonize the International Monetary Fund and World Bank while new assistance is pending, the Burmese government held down growth of the burgeoning money supply somewhat in the last quarter of 1974, after a year of expansion of nearly 30 percent. Now, after a period of serious inflation, local currency shortages are appearing and threatening government rice procurement programs. Farmers are reluctant to accept government I.O.U.s for their rice and are demanding cash, which can be spent in the thriving black market. Caught in the center of the cash squeeze, the government is having a hard time meeting payrolls at state enterprises.

Perhaps the most fundamental deficiencies at play in Burma's economy are the restrictive government policies that hamper normal market mechanisms. For example, rice for consumption by urban workers and for export is acquired through government procurement at fixed prices. Low prices failed to induce farmers to produce much beyond their own needs, and government acquisitions have regularly fallen short of targets.

There are also strong disincentives to saving and investment. Savings declined from 13 percent

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of gross national product in 1968 to 7 percent in 1974 because of shrinking real incomes and negative real returns from low nominal interest rates. Consequently, domestic sources of investment funds were limited, and long-standing restrictions on foreign investment prevented foreign capital from filling the gap. Foreign capital inflow last year amounted to some 1.5 percent of gross national product leaving gross investment from all sources at well under 10 percent. This is less than half that of Thailand and Malaysia, regional neighbors with similar national resources.

Instances of liberalized government policy since the early 1960s have been short lived, narrowly conceived, and usually brought on only by sharp pressure. Following last June's riots over food and consumer goods shortages, for example, the government authorized private rice merchants to operate in a free market to supply cities. The authorization was rescinded after three months, when rice supplies began to improve. Subsequently, government procurement prices offered rice farmers were temporarily increased by 50 percent--a measure which promises to ensure adequate urban supplies. On the other hand, retail rice prices in state stores have not been changed, and rice is sold to the urban population at a loss that indirectly has to be covered by foreign borrowing.

If the present economic picture is bad, the future has begun to look grim. Problems abound in transportation and industry because of spare parts shortages and outdated equipment. Investment is too small to replace worn-out equipment, much less support any expansion. Private foreign capital is thwarted by the regime's overwhelming instinct to insulate the country from foreign influence.

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Government support of the all-important agricultural sector is particularly weak. Of the total capital budget, expenditures devoted to agriculture declined from 16 percent in 1963 to less than 8 percent ten years later and in the current 1975/76 budget increased marginally to only 9 percent. Continuation of past rice production trends with expected population growth will make Burma a net food importer within five years. Moreover, Rangoon is under the illusion that offshore oil discoveries will alter its current financial crisis, even though perhaps five to seven years are required to develop any deposits that may be found. No offshore strikes have yet been made.

Perhaps one small area for optimism exists in the dialogue now going with the International Monetary Fund and the World Bank. Loans from these institutions probably will not be specifically tied to economic reforms, but a reform message and certain guidelines no doubt will be emphasized. High on the list of recommendations will be debt-rescheduling to relieve the current foreign exchange squeeze. Relaxation of price controls will be encouraged to remove price distortions and to offset the black market. A boost in production and exports is needed to reverse the trend of declining imports so that capital goods for development can flow in. Here the focus will be on agriculture, requiring heavy government financial support.

Despite Fund and World Bank recommendations, it will be difficult to dispel a deep-rooted Burmese view that private business or market mechanisms are the real barriers to socio-economic development. Probably the best that can be expected is a limited acceptance of the need for change and a handful of timid attempts at application.

There is the ever-present hazard that continued austerity could produce public outbursts that force

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increased consumption at the expense of investment. In any event, time is needed to reverse the momentum of decay, and the likely result over the next several years is further deterioration of already poor economic conditions.

Intellectual and popular dissatisfaction with the economy could lead to political trouble for the government. Nevertheless, the military remains in firm control, and it seems unlikely that the regime will be unseated in the immediate future. Bleak economic prospects or being on the threshold of bankruptcy do not necessarily portend total disaster. Burma might stumble along indefinitely in India-like fashion. (SECRET NO FOREIGN DISSEM)

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Malaysia: A Red Rash

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A recent spate of Communist terrorist attacks has spurred the Malaysian government to stronger efforts against the country's nagging insurgency.

Government officials were alarmed by coordinated rocket attacks at the end of March against five military installations, some of them well down the Malaysian Peninsula from usual insurgent haunts along the Thai border. The attacks close to Kuala Lumpur raise the specter of urban terrorism, which has been only sporadic in the past. Security officials, impressed by the terrorists' ingenuity in making efficient rockets from simple materials, have concluded that they now face a more intelligent and resourceful enemy.

The rocketing incidents in previously secure areas have also aroused fears that there may be an acceleration of the slow southward drift by the insurgents in recent years from their sanctuaries on the Thai side of the border. For the most part, the some 1,600 rebels have stayed close to the border refuge ever since the long post - World War II insurgency was finally contained in 1960.

Following the rocket attacks there were communist ambushes in two border states that resulted in 13 government fatalities. Government road and dam projects in the same area have been the target of fairly frequent communist attacks over the past year as the rebels sought to counter the extension of a government presence into their jungle retreats.

The government is further discomfited by indications of a revival of rebel activity in the Borneo state of Sarawak, where a smaller scale insurgency had been deflated through a surrender and amnesty

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program last year. A rebel ambush in Sarawak this month resulted in the first military fatalities there in a year and a half.

Government authorities do not see any connection between the upsurge in insurgent activity and events in Indochina, although they admit that recent communist military victories in Cambodia and Vietnam may have emboldened the local communists. Security officials are probably correct in believing that the step-up is primarily a consequence of Malaysian communist factional competition. Evidence has come to light over the past year that internal squabbling has resulted in two breakaway factions, and there has been a trend toward more aggressive action as each faction seeks to establish its supremacy.

In an effort to head off further incidents, the government will intensify the monitoring of communist activity in 300 special security areas. The army is also sending additional units to the Thai border area and has launched sweep operations--so far with no enemy contact. The government hopes these countermeasures will ease public fears, fed by the local press, of broadening domestic communist insurgency as a consequence of the communist successes in Indochina.

Intensified counterinsurgency efforts will have only limited effect, however, if the insurgents retreat to their bases on the Thai side of the border. Bangkok has been giving only grudging cooperation to cross-border operations on the assumption that the rebels pose no threat to Thailand. Although a high-level Malaysian official claimed after a recent visit to Bangkok that the Thai have agreed to closer cooperation, Thailand's increasing concern over its problems on the Cambodian border raises doubts whether Bangkok's attention can now be focused on the insurgents along the Malaysian border. (SECRET NO FOREIGN DISSEM)

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Philippines: A Visit from a
Romanian Head of State

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President and Mrs. Marcos pulled out all the stops in playing host to the visit of Romanian President Ceausescu from April 9 to 12--the first by a communist head of state to the Philippines. A massive publicity campaign surrounded the visit, including coverage of the arrival and departure ceremonies, the state dinners, and the granting of honorary degrees to both Ceausescu and his wife.

Marcos used the visit to emphasize the new directions he is taking in foreign policy. At Bataan Day celebrations, which were put off a day so Ceausescu could attend, Marcos balanced the occasion's traditional expressions of US-Philippine friendship with statements of lessening dependence on the US. At one point in his speech Marcos stated that the "lesson" of Bataan is that Filipinos must never again depend on foreign powers to defend them.

Despite the fanfare accorded Ceausescu, little of political or economic substance was gained by either the Philippines or Romania. The visit was capped with a joint communique and a set of small economic agreements. Among other things, the communique endorsed the concept of nuclear-free zones in the Balkans and the Indian Ocean and expressed "hope" for a similar zone in Southeast Asia. On the economic side, the Filipinos reportedly agreed to buy 500 Romanian tractors and \$3.6 million worth of oil-drilling equipment, while the Romanians reportedly granted a \$31-million soft loan for a Philippine thermal power plant. The Romanians apparently agreed prior to the visit to purchase a considerable quantity of Philippine nickel over

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the next six years and, in apparent deference to Manila's concern that the present balance of trade favors Bucharest, authorized an official to stay on in Manila for continuing discussions after Ceausescu's departure.

Aside from its usefulness as a forum for emphasizing new trends in Philippine foreign policy, the visit's meager tangible results point up the problems that Manila faces in trying to modify its foreign policy alignment. In short, neither the communist states nor the Philippines have much to offer each other, and Manila for the present has no really effective alternative to continued reliance on its traditional partners for its major trade and defense requirements. (CONFIDENTIAL)

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